

# Chapter 2

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## Financing Small Business

### Synopsis

**G**iven the steady economy of 1996, small businesses found an ample supply of debt capital to meet the normal demand for financing for seasonal and expansion purposes. A healthy banking system provided adequate small business loans. While market interest rates declined overall in the second half of the year, borrowing costs remained high for small firms.

The availability of equity financing, especially for fast-growing firms, continued to expand in the booming equity market of 1996. Both initial public offerings and private venture capital reached historically high volumes. The availability of informal equity capital from accredited investors is also believed to have increased significantly in 1996.

### Credit Conditions for U.S. Businesses in 1996

**A** fairly strong economy in a late stage of economic expansion contributed to some uncertainty in the financial markets in the United States in 1996. Growth in gross domestic product was at more than 3 percent in the four quarters of 1996—a better record than in similar years at this stage of economic expansion.

Interest rates moved up during the first and second quarters and retreated in the last quarter, partially reversing the increase.

By year end, long-term rates had moved up about 40 basis points, and intermediate-term rates had risen slightly more. Demand for credit from non-financial sectors remained relatively moderate in 1996, increasing at an annual rate of about 3.6 percent, much lower than in 1995.

With the Federal Reserve Board anxious about excessive demand for credit, long-term interest rates reached a peak by mid-1996 and retreated steadily, ending the year slightly higher than at the beginning. The AAA corporate bond rate rose from 6.8 percent to a high of 7.71 percent by June 1996 and fell back to 7.2 percent in December 1996 (Chart 2.1).

### Uses of Funds by Major Sectors

**O**verall borrowing by U.S. domestic sectors increased moderately—by 3.8 percent—in 1996 (Table 2.2). Almost all of the increase came from state and local governments, which had made net payoffs of loans in the previous two years, then reversed direction to become net borrowers in 1996.

**Table 2.1** *Major Sources of Business Financing, June 1995<sup>1</sup> (Billions of Dollars)*

	All Business	Large Business	Small Business
Total Assets	11,166	6,680	4,486
Total Debt <sup>2</sup>	5,499	3,363	2,136
Total Net Worth <sup>3</sup>	5,667	3,317	2,350
<b>Other Debt and Net Worth Estimates<sup>4</sup></b>			
<b>Debt: (June 1995)</b>			
Commercial Paper	163	163	0
Commercial Mortgages by Banks <sup>5</sup>	290	224	66
Commercial and Industrial Loans by Banks <sup>5</sup>	516	418	98
Trade Debt <sup>6</sup>	871	638	233
Finance Company Receivables from Businesses <sup>7</sup>	362	272	91
<b>Equity</b>			
Public Markets—All <sup>8</sup>	127	117	10
Initial Public Offerings <sup>9</sup>	532	502	30
Secondary Offerings <sup>10</sup>	30	0	30
Venture Capital Pool <sup>11</sup>	375	375	0
	34	0	35

<sup>1</sup> Most estimates are stock estimates valued at June 1995 or as specified. Small businesses include all noncorporate businesses and small corporations with assets under \$25 million.

<sup>2</sup> Estimates by the Federal Reserve Board for nonfarm, nonfinancial corporations and non-farm, noncorporate businesses. Total assets and debt for small corporations were estimated by applying 17.5 percent and 19.0 percent, respectively, to that of all corporations.

<sup>3</sup> Net worth is treated as a residual. (These ratios were estimated by using corporate tax return data published by the U.S. Department of the Treasury, Internal Revenue Service).

<sup>4</sup> These estimates are obtained from sources using different methodologies. They are not strictly comparable and should not be summed for a total.

<sup>5</sup> Small business loans are defined as loans under \$250,000 (based on call report data). An alternative estimate of small mortgage loans, defined as commercial mortgage debt outstanding for the nonfarm, noncorporate sector from the Flow of Funds Accounts, amounted to \$390 billion as of December 31, 1995.

<sup>6</sup> The sum of trade payables for the nonfarm, noncorporate sector and small corporations. Totals for small corporations are estimated by applying 20 percent to trade credit for all nonfinancial corporations.

<sup>7</sup> The small business share was derived by applying a 25 percent share to the total.

<sup>8</sup> For December 1995. The total estimated cumulative value of public offerings of common stock for the period 1988 through 1995. Small businesses are businesses with assets under \$10 million before offering.

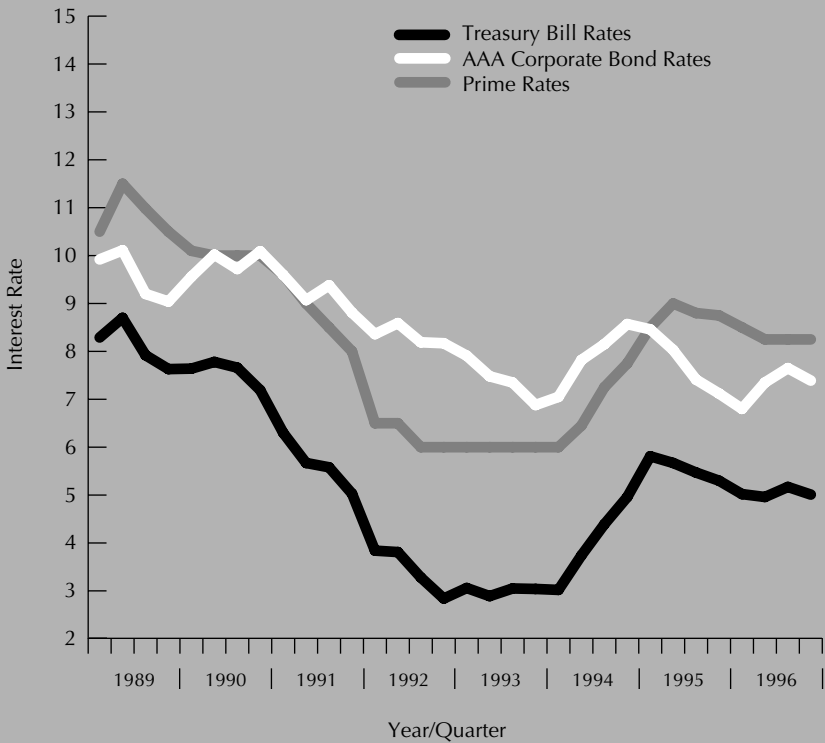
<sup>9</sup> For December 1995. The total estimated cumulative value of initial public offerings of common stock for the period 1988 through 1995. Small businesses are businesses with assets under \$10 million before offering.

<sup>10</sup> For December 1995. The total estimated cumulative value of secondary public offerings of common stock for the period 1988 through 1995. Small businesses are businesses with assets under \$10 million before offering.

<sup>11</sup> For December 1995. *Venture Economics* estimated cumulative net value of liquidation.

Source: Board of Governors of the Federal Reserve System, *Balance Sheets for the U.S. Economy 1945–1994* (Washington, D.C.: Board of Governors of the Federal Reserve System, June 1995); Tables B.103 and B.104, and Flow of Funds Accounts, Fourth Quarter (March 8, 1996).

**Chart 2.1** *Long-Term and Short-Term U.S. Interest Rates, January 1989–December 1996*



Source: U.S. Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*, various issues.

Total borrowing by the business sector declined from \$234 billion in 1995, a level comparable to the high levels of 1986–1988, to \$194 billion in 1996. The decline was attributable to a large decrease in corporate borrowing from \$198 billion to \$147 billion. Borrowing by the nonfarm, noncorporate sector increased further in 1996 to an annual rate of \$43 billion (Table 2.2).

## Small Business Borrowing

Small businesses use a variety of financing sources, including internal resources such as owners' savings, business retained earnings, and depreciation; "informal" external sources, such as friends and business associates; financial intermediaries, such as banks and finance companies; and the public markets, where standardized financial instruments are sold to a large number

**Table 2.2** *Credit Borrowing by Borrowing Sector, 1980–1996 (Billions of Dollars)\**

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
<b>Total Domestic</b>																
<b>Borrowing</b>	<b>382.1</b>	<b>420.8</b>	<b>562.2</b>	<b>780.2</b>	<b>965.1</b>	<b>863.6</b>	<b>733.7</b>	<b>767.7</b>	<b>720.3</b>	<b>669.4</b>	<b>480.6</b>	<b>544.5</b>	<b>629.5</b>	<b>621.3</b>	<b>719.8</b>	<b>747.4</b>
<b>Government</b>																
Federal	85.5	161.3	185.2	197.2	225.7	216.0	143.9	155.1	146.4	246.9	278.2	304.0	256.1	155.9	144.4	145.0
State and Local	16.3	30.4	34.6	52.5	163.6	73.4	91.1	54.5	51.0	46.6	81.6	21.1	62.3	-39.8	-39.6	13.3
<b>Business</b>																
Farm	16.3	6.7	3.9	-0.4	-14.5	-17.4	-11.6	-10.2	0.6	1.0	2.1	1.3	2.0	2.8	1.6	3.1
Nonfarm																
Noncorporate	44.7	71.2	72.2	109.2	121.2	94.3	55.5	84.2	69.6	1.1	-11.0	-16.0	4.2	11.9	34.8	43.4
Nonfinancial																
Corporate	115.5	68.1	81.0	198.7	168.4	236.3	148.7	225.0	183.2	110.0	-53.0	33.9	47.6	118.1	197.5	147.3
<b>Households</b>	103.9	83.2	185.3	223.0	300.8	261.1	306.5	259.1	269.5	263.7	182.7	200.2	257.3	372.4	381.1	395.3
<b>Foreign Borrowing in the United States</b>	23.5	16.0	17.3	8.4	1.2	9.7	6.2	6.4	10.2	23.9	14.8	23.7	70.4	-15.3	69.5	67.4

\* Excluding equity and borrowing by financial institutions. Data revisions for 1992–1995.

Source: Board of Governors of the Federal Reserve System, *Flow of Funds Accounts, Fourth Quarter 1996: Flows and Outstandings* (March 1997).

of buyers. Although data are available on some financing sources, efforts to analyze changes over time in the sources and uses of small business financing are hampered by a lack of current time series statistics.

The 1993 National Survey of Small Business Finances indicates that in 1993 some 55 percent of small firms used selected traditional credit, 61 percent used trade credit, and 39 percent and 28 percent, respectively, used personal and business credit cards (Table 2.3).<sup>1</sup>

Banks remain the most important supplier of the six traditional types of small business financing, providing 54 percent of such financing overall (Chart 2.2 and Table 2.4).

An ample supply of funds and continued high borrowing costs characterized small business financial markets in 1996. While market interest rates declined overall in the second half of 1996, borrowing costs paid by small firms remained high (Chart 2.1, Tables 2.7 and 2.8).<sup>2</sup>

The spread between rates for small loans under \$100,000 and the federal funds rate (banks' cost for funds) declined by about 30-50 basis points from the 1992 peak. But the margin remained wide, at 440 basis points, compared with about 350 basis points for medium-sized loans (\$100,000 to \$1 million) and 170 basis points for larger loans (\$1 million or more). Large and rapid upward adjustments in the prime rate in 1994 through mid-1995 and subsequent slower downward adjustments are credited for this phenomenon.<sup>3</sup> The higher profit margins seem to have motivated bankers to promote small business lending, while also contributing to profit increases in 1995-1996.<sup>4</sup>

## Lending to Small Businesses by Commercial Banks

At least three indicators point to increased small business lending by banks in 1996:<sup>5</sup>

- A survey of bankers indicates that demand for loans by businesses—small, medium-sized, or large—remained strong; a smaller number of banks reported strong increases in demand for loans from small

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<sup>1</sup> A second nationwide survey of small business financing, the 1993 National Survey of Small Business Finances, was sponsored by the U.S. Small Business Administration and the Federal Reserve Board. Details of the survey are available to the public: interested researchers may access the files through the Internet at [www.bog.frb.fed.us/pubs/oss](http://www.bog.frb.fed.us/pubs/oss). For preliminary tabulations, see John Wolken and Rebel Cole, "Financial Services Used by Small Businesses: Evidence from the 1993 National Survey of Small Business Finances," *Federal Reserve Bulletin* (July 1995).

<sup>2</sup> Declines in interest rates paid by small firms usually lag behind declines in market interest rates; thus small firm interest rates remained high relative to market and corporate loan rates.

<sup>3</sup> See also Federal Reserve Board, *Senior Loan Officer Opinion Survey on Bank Lending Practices*, various issues.

<sup>4</sup> See also "Profits and Balance Sheet Developments at U.S. Commercial Banks in 1996," *Federal Reserve Bulletin* (June 1997).

<sup>5</sup> Data on bank lending to small businesses became available with the June 1993 call reports filed with financial regulatory authorities by all commercial banks. All commercial banks are required to report in their June call report filings the number and dollar amount of their commercial and industrial loans and loans for nonresidential real estate by loan size.

**Table 2.3** *Selected Financial Services Used by Firm Size, 1993 (Percent)*

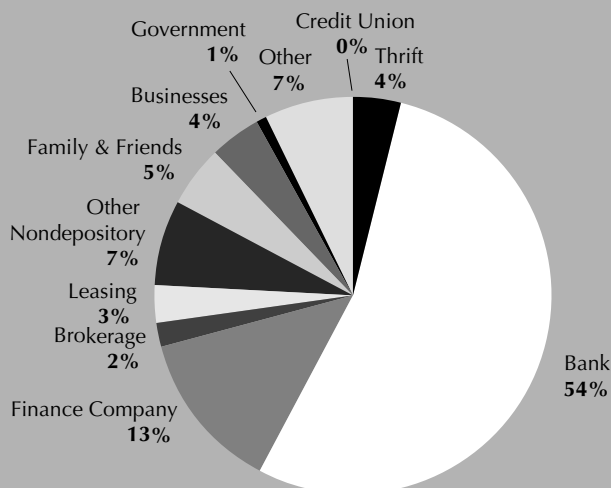
Category	Credit Lines, Loans, and Capital Leases						Nontraditional Credit		
	Any	Credit Line	Mortgage	Vehicle	Equipment	Capital Lease	Other	Loan from Owner	Trade Credit
<b>All Firms</b>	<b>55</b>	<b>24</b>	<b>6</b>	<b>24</b>	<b>14</b>	<b>9</b>	<b>11</b>	<b>17*</b>	<b>60.8</b>
Number of Full-Time-Equivalent Employees									
0	35	11	6	14	7	4	8	2	49.9
1-4	51	20	6	23	11	6	11	15	62.8
5-9	67	32	7	32	17	12	12	27	69.6
10-19	75	40	8	34	24	21	17	30	73.4
20-99	81	56	7	33	31	23	13	29	74.1
100-499	90	62	19	32	30	33	21	30	84.3

\* Owners loans to sole proprietors not included.

Note: The 1993 National Survey of Small Business Finances was co-sponsored by the Federal Reserve Board and the U.S. Small Business Administration. A national representative sample of some 5 million firms with fewer than 500 employees from the Dun and Bradstreet business data base was surveyed.

Source: Preliminary tabulations from 1993 National Survey of Small Business Finances. See also John Wolken and Rebel Cole, "Financial Services Used by Small Businesses: Evidence from the 1993 National Survey of Small Business Finances," *Federal Reserve Bulletin* (July 1995).

**Chart 2.2** *Supply of Small Business Credit by Supplier, 1993*



Source: Total small business debt outstanding amounted to \$668 trillion as of 12/31/1993 for about 5 million small firms.

businesses. In comparison with earlier surveys, a larger fraction of respondent banks eased standards for business loans in the second half of 1996.<sup>6</sup>

- Lending by banks that make primarily small loans also increased between June 1995 and June 1996. Total business loans (commercial and industrial and business real estate) by small banks that extend mostly small loans (less than \$1 million) increased by about 11.6 percent, a rate comparable to that observed in the previous year (Table 2.9).<sup>7</sup>
- The call report data indicate that the small business loan market continued to expand in 1996 (although more slowly than in 1995), despite the fact that the number of reporting banks declined by almost 500, from 10,149 in 1995 to 9,670 in 1996.

<sup>6</sup> Federal Reserve Board, *Senior Loan Officer Opinion Survey on Bank Lending Practices* (Washington, D.C.: Federal Reserve Board of Governors, November 1996 and January 1997). The January survey also reported that two-fifths of the respondents said they always used credit scoring when making small business loans.

<sup>7</sup> Federal Reserve Board, *Information on Depository Credit for Small Businesses and Small Farms* (Washington, D.C.: Board of Governors of the Federal Reserve System, October 1996), Table A.5.

**Table 2.4** *Distribution of Small Business Credit by Credit Type and Lender, 1993*

	Credit Union	Thrift	Commercial Bank	Finance Company	Brokerage	Leasing Company	Other Non-Despository	Family and Friends	Other Businesses	Government	Other	Total
<b>Distribution in Billions of Dollars</b>												
Credit Line	0.25	3.63	196.74	40.64	4.98	2.27	1.63	2.40	1.17	0.23	26.13	280.1
Lease	0.59	0.29	8.89	5.62	0.04	10.87	0.07	0.90	1.50	0.02	1.02	29.8
Mortgage Loan	0.86	15.40	73.94	13.31	5.68	0.12	41.22	4.92	5.17	1.82	3.35	165.8
Vehicle Loan	0.72	0.33	12.90	12.98	0.04	1.61	0.01	0.34	0.52	0.04	0.18	29.7
Equipment Loan	0.05	0.65	31.94	11.54	0.01	2.95	0.04	1.17	3.47	0.96	2.04	54.8
Other	0.26	3.65	36.60	2.49	1.43	1.14	4.52	23.66	17.50	3.71	12.97	107.9
Total	2.73	23.95	361.00	86.59	21.19	18.96	47.48	33.39	29.33	6.77	45.69	668.10
<b>Percentage Distribution</b>												
Credit Line	0.1	1.3	70.2	14.5	1.8	0.8	0.6	0.9	0.4	0.1	9.3	100.0
Lease	2.0	1.0	29.8	18.9	0.1	36.5	0.2	3.0	5.0	0.1	3.4	100.0
Mortgage Loan	0.5	9.3	44.6	8.0	3.4	0.1	24.9	3.0	3.1	1.1	2.0	100.0
Vehicle Loan	2.4	1.1	43.4	43.7	0.1	5.4	0.0	1.2	1.7	0.1	0.6	100.0
Equipment Loan	0.1	1.2	58.3	21.0	0.0	5.4	0.1	2.1	6.3	1.8	3.7	100.0
Other	0.2	3.4	33.9	2.3	1.3	1.1	4.2	21.9	16.2	3.4	12.0	100.0

Source: Preliminary tabulations from the 1993 National Survey of Small Business Finances. See also John Wolken and Rebel Cole, "Financial Services Used by SSmall Businesses: Evidence from the 1993 National Survey of Small Business Finances," *Federal Reserve Bulletin*, July 1995.



**Table 2.5** *Major Sources and Uses of Funds by Nonfarm, Nonfinancial Corporate Businesses, 1980–1996*  
(Billions of Dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Before-Tax Profit	180.9	133.0	156.0	191.0	167.6	151.3	214.9	200.0	236.5	236.5	217.1	256.7	302.8	371.4	401.6	424.2
Domestic Undistributed Profit	64.2	30.6	30.5	46.4	21.7	-2.1	41.3	73.6	32.2	20.5	8.3	33.7	48.2	81.5	86.9	90.4
Depreciation with Capital Consumption Adjustment	186.2	215.1	251.5	279.1	310.7	312.8	324.0	338.3	349.3	354.3	364.3	372.0	387.4	415.3	431.0	456.3
Total Internal Funds, on Book Basis	250.3	245.7	282.0	329.1	336.7	315.5	370.1	418.4	384.8	377.9	372.6	406.3	435.5	496.7	517.9	546.7
Net Increase in Liability	151.8	84.1	152.3	318.9	379.7	190.0	273.9	443.7	347.4	183.5	67.1	161.3	217.9	241.6	403.3	355.1
Funds Raised in Credit Markets	115.5	68.1	81.0	198.7	168.4	236.3	148.7	225.0	183.2	110.0	-55.1	34.1	47.7	118.5	197.0	146.4
Net New Equity Issues	-13.5	1.9	20.0	-79.0	-84.5	-85.0	-75.5	-129.5	-124.2	-63.0	18.3	27.0	21.3	-44.9	-73.8	-81.2
Capital Expenditures	313.0	278.8	294.0	387.5	369.6	347.3	357.4	373.3	399.4	394.5	371.9	386.9	435.6	496.0	550.4	555.8
Net Financial Investment	-43.4	-19.6	-35.9	-40.9	-105.6	-18.0	-39.4	-60.7	-113.9	-68.3	62.7	6.2	139.4	36.7	4.9	41.8

Note: Major data revisions for 1991–1995.

Source: Board of Governors of the Federal Reserve System, *Flow of Funds Accounts, Fourth Quarter 1997: Flows and Outstandings* (June 1997).

**Table 2.6** *Major Sources and Uses of Funds by Nonfarm, Noncorporate Businesses, 1981–1996*  
(Billions of Dollars)\*

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Net Income	182.3	183.5	213.4	274.3	298.1	306.7	331.9	378.2	407.0	434.9	464.1	518.1	533.9	558.1	585.9	613.6
Gross Investment	56.7	63.1	65.2	55.8	59.6	64.0	67.7	72.8	77.0	80.6	67.5	73.2	73.4	83.1	80.1	83.2
Fixed Capital Expenditures	72.2	70.6	69.9	92.6	104.1	106.6	107.4	112.9	118.0	106.4	91.1	85.5	98.9	112.4	132.8	138.4
Changes in Inventories	0.8	-1.0	0.5	3.1	10.0	0.6	1.5	1.1	1.6	0.3	0.1	-0.1	1.3	2.3	2.0	0.9
Net Financial Investments	-16.3	-6.4	-5.1	-39.9	-45.5	-43.1	-41.2	-41.2	-42.6	-26.1	-23.5	-12.4	-26.9	-31.7	-57.4	-56.1
Net Increase in Credit Market Debt	44.7	71.6	86.7	109.2	111.6	48.1	25.7	87.6	61.1	13.8	15.0	-16.0	4.2	11.9	33.7	40.8
Mortgages	23.3	76.0	74.0	83.8	109.1	82.7	39.9	68.5	56.1	4.1	-9.9	-15.1	-1.5	-6.8	4.0	15.4
Net Investment by Proprietors	-37.9	-76.4	-65.0	-23.3	-26.5	-53.1	-28.0	-15.6	-28.1	20.3	18.5	26.7	42.5	29.0	28.0	22.5

\* Major revisions for 1991-1995.

Source: Board of Governors of the Federal Reserve System, *Flow of Funds Accounts, Fourth Quarter 1997: Flows and Outstandings* (June 1997).

**Table 2.7** *Short-Term and Long-Term Loan Rates for Small Loans by All Commercial Banks, February 1986–November 1996<sup>1</sup>*

		Short-Term Loans <sup>2</sup>			Long-Term Loans	
		Fixed Rate	Floating Rate	Prime Rate	Fixed Rate	Floating Rate
1996						
	November	9.44	9.61	8.25	9.78	9.65
	August	9.53	9.62	8.25	9.53	9.60
	May	9.54	9.64	8.25	9.68	9.62
	February	9.77	9.67	8.25	9.79	9.56
1995						
	November	10.01	10.22	8.75	9.77	10.12
	August	10.09	10.24	8.75	10.03	10.05
	May	9.56	10.29	9.00	10.12	10.40
	February	9.33	10.30	9.00	9.82	10.12
1994						
	November	7.96	9.11	8.15	9.42	9.21
	August	8.74	8.54	7.51	8.92	8.46
	May	8.01	8.12	6.99	8.57	8.24
	February	7.96	7.49	6.00	7.35	7.64
1993						
	November	8.08	7.41	6.00	8.33	7.60
	August	8.50	7.40	6.00	8.59	7.63
	May	8.27	7.48	6.00	8.80	7.77
	February	8.43	7.42	6.00	8.98	8.13
1992						
	November	8.64	7.53	6.00	9.28	7.95
	August	8.94	7.48	6.00	9.41	7.71
	May	7.89	7.78	6.50	9.17	7.79
	February	8.18	7.80	6.50	9.07	7.84
1991						
	November	9.35	8.95	7.50	10.05	9.03
	August	11.20	10.16	8.50	11.26	10.37
	May	11.19	10.22	8.50	11.24	10.64
	February	11.29	10.68	9.00	11.73	11.12
1990						
	November	11.90	11.87	10.00	12.30	12.06
	August	12.06	11.84	10.00	12.15	12.08
	May	11.87	11.96	10.00	11.99	12.05
	February	12.12	11.96	10.00	12.29	12.19
1989						
	November	12.38	12.45	10.50	12.28	12.48
	August	12.67	12.49	10.50	12.42	12.66
	May	13.37	13.46	11.50	13.16	13.74
	February	12.26	12.54	10.93	14.08	12.66
1988						
	November	11.94	11.90	10.05	12.65	12.05
	August	11.43	11.48	9.84	11.53	11.59
	May	10.90	10.38	8.84	11.77	10.62
	February	11.17	10.48	8.51	11.90	10.88
1987						
	November	11.29	10.78	8.78	11.93	11.28
	August	10.66	10.15	8.70	12.11	10.15
	May	11.10	9.85	8.25	11.22	10.08
	February	10.51	9.41	7.50	11.04	9.81
1986						
	November	10.55	9.51	7.50	11.35	9.41
	August	10.94	9.90	7.90	11.84	9.99
	May	11.34	10.42	8.50	12.28	10.54
	February	12.52	11.46	9.50	13.02	11.77

<sup>1</sup> Small loans refer to loans under \$100,000.

<sup>2</sup> For rates before November 1990, averages of loan rates for three loan sizes: under \$25,000, \$25,000 to under \$50,000, and \$50,000 to under \$100,000.

Source: Board of Governors of the Federal Reserve System, *Survey of Terms of Bank Lending*, Statistical Release E.2, various issues; and *Federal Reserve Bulletin*, various issues.

**Table 2.8** *Loan Rates Charged by Banks on Loans Made in November 1995 and November 1996*

	Loan Size (Thousands of Dollars)			
	1–99	100–499	500–999	1,000+
<b>November 1996</b>				
<b>Large Banks</b>				
Short-Term Loans				
Fixed Rate	8.25	7.43	7.13	6.44
Floating Rate	9.44	8.96	8.65	6.88
Term Loans				
Fixed Rate	9.37	8.93	7.63	6.73
Floating Rate	9.28	8.73	8.42	7.13
<b>Small Banks</b>				
Short-Term Loans				
Fixed Rate	9.59	8.45	7.06	6.33
Floating Rate	9.72	9.24	8.73	7.41
Term Loans				
Fixed Rate	9.82	8.52	7.86	5.70
Floating Rate	9.81	9.20	8.29	7.34
<b>November 1995</b>				
<b>Large Banks</b>				
Short-Term Loans				
Fixed Rate	8.98	7.96	7.44	6.72
Floating Rate	10.04	9.64	9.20	7.82
Term Loans				
Fixed Rate	9.32	8.32	8.22	7.71
Floating Rate	9.81	9.42	9.06	8.12
<b>Small Banks</b>				
Short-Term Loans				
Fixed Rate	10.11	9.04	7.83	6.69
Floating Rate	10.32	9.76	9.56	8.23
Term Loans				
Fixed Rate	9.81	9.31	8.86	7.22
Floating Rate	10.22	9.59	9.41	8.21

\* Averages of loan rates for three loan sizes: \$1 million—\$5 million, \$5 million—\$10 million, and \$10 million and over.

Source: Board of Governors of the Federal Reserve System, *Survey of Terms of Bank Lending*, Statistical Release E.2 (December 3, 1995 and December 12, 1996).

**Table 2.9** *Growth of Business Loans at U.S. Commercial Banks<sup>1</sup> that Make Primarily Small Business Loans,<sup>2</sup> 1990–1996*

Year	Total Business Loan <sup>3</sup>	Commercial and Industrial	Nonfarm, Nonresidential Real Estate
<b>Amount Outstanding, June 30 (Billions of Dollars)</b>			
1996	66.3	34.9	31.4
1995	59.4	31.3	28.1
1994	52.9	27.8	25.1
1993	48.2	25.7	22.5
1992	47.6	26.0	21.6
1991	46.1	26.4	19.7
1990	45.0	27.0	18.0
<b>Percentage Change, June to June</b>			
1996	11.6	11.5	11.7
1995	12.3	12.6	12.0
1994	49.8	8.2	11.6
1993	1.3	−1.2	4.2
1992	3.3	−1.5	9.6
1991	2.4	−2.2	9.4

<sup>1</sup> U.S. domestically chartered commercial banks, excluding credit card banks and U.S. branches and agencies of foreign banks. U.S. branches and agencies of foreign banks held approximately \$171 billion in commercial and industrial loans on June 30, 1996; almost all were in loans greater than \$1 million. Credit card banks held less than \$1.5 billion of commercial and industrial loans.

<sup>2</sup> Banks that reported that 95 percent or more of their total business loans were in original amounts of less than \$1 million. The number of such banks totaled 6,545 on June 30, 1996. About 475 of these banks were excluded from the above calculations because they were not in operation seven years prior to 1996. These numbers do not include the growth of small business loans at banks that lend to larger firms as well as to small firms, and hence should not be interpreted as the growth rate of total small business loans.

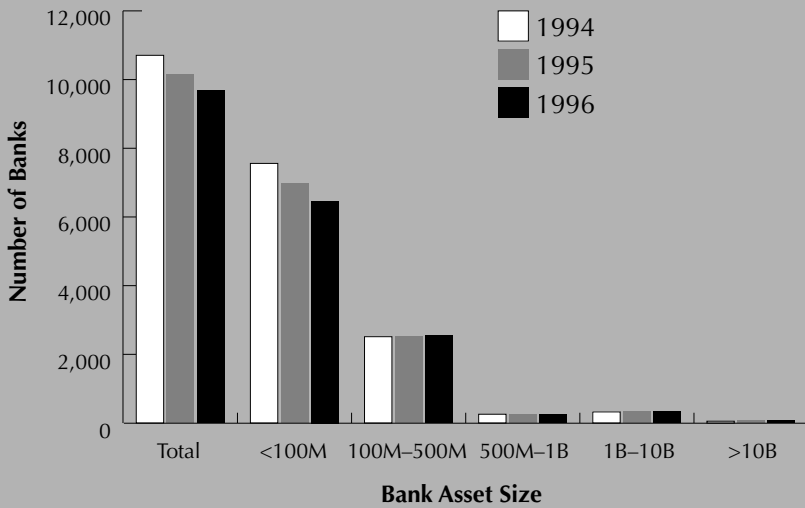
<sup>3</sup> Construction and land development loans not included.

Source: Adapted from Board of Governors of the Federal Reserve System, "Information on Depository Credit for Small Business and Small Farms," December 1996.

This decline was concentrated in small banks: the number of small banks with less than \$100 million in assets declined from 6,980 in 1995 to 6,465 in 1996 (Chart 2.3).

Loans outstanding to small businesses increased 5 to 6 percent depending on how small business loans are defined (Table 2.11). Between June 1995 and June 1996, the smallest loans (under \$100,000) increased 4.8 percent, loans under \$250,000 increased 5.1 percent, and loans under \$1 million increased 5.4 percent.

**Chart 2.3** *Changes in the Number of Reporting Banks by Bank Size, 1994–1996*



Source: Adapted by the Office of Advocacy, U.S. Small Business Administration from the Consolidated Reports of Condition and Income for U.S. Banks

Most of the increase in this period was in the smallest commercial and industrial (C&I) loans under \$100,000, which increased 7.7 percent. Small real estate loans declined slightly during this period.

### Profile of Bank Lending to Small Businesses in 1996

Small business lending can be defined at three loan-size levels—under \$1 million, under \$250,000, and under \$100,000.<sup>8</sup> Some 6.4 million small business loans of less than \$1 million were outstanding from 9,670 federally insured domestic banks as of June 1996. These loans, valued at \$333 billion, accounted for 39.3 percent of total business loan dollars (Table 2.10). The total includes \$176 billion in C&I loans and \$157 billion in nonfarm, non-residential real estate loans.

The smallest loans—those under \$100,000—accounted for just 12.4 percent of all business loans in June 1996, compared with 13.4 percent in June 1994 and 12.5 percent in June 1995 (Table 2.11). The extent to which

<sup>8</sup> Three sizes of business loans are reported by commercial banks in call reports (Consolidated Reports of Condition and Income). Loans in the range of \$250,000 to \$1 million are considered loans for established small businesses; loans under \$100,000 are generally made to very small or microbusinesses.



**Table 2.11** *Small Business Lending by Loan Size, 1994–1996 (Amounts in Millions of Dollars)*

	Loan Sizes											
	Under \$100,000			\$100,000–\$250,000			Under \$250,000			\$250,000–\$1 Million		
	Dollar Amount	Percent of Total		Dollar Amount	Percent of Total		Dollar Amount	Percent of Total		Dollar Amount	Percent of Total	
<b>June 1996</b>												
Commercial and Industrial Loans	72,147	13.3		33,288	6.1		105,436	19.4		70,361	12.9	
Nonfarm, Nonresidential												
Real Estate Loans	33,040	10.8		33,843	11.1		66,883	22.0		90,362	29.7	
Total Business Loans	105,187	12.4		67,132	7.9		172,319	20.3		160,723	19.0	
<b>June 1995</b>												
Commercial and Industrial Loans	66,999	13.0		31,324	6.1		98,323	19.0		66,948	13.0	
Nonfarm, Nonresidential												
Real Estate Loans	33,374	11.5		32,193	11.1		65,567	22.6		85,074	29.4	
Total Business Loans	100,374	12.5		63,517	7.9		163,891	20.3		152,022	18.9	
<b>June 1994</b>												
Commercial and Industrial Loans	64,073	14.1		28,637	6.3		92,710	20.3		61,875	13.6	
Nonfarm, Nonresidential												
Real Estate Loans	33,602	12.3		29,228	10.7		62,830	23.0		77,001	28.2	
Total Business Loans	97,675	13.4		57,866	7.9		155,541	21.3		138,876	19.1	
<b>Percent Changes from 1995 to 1996</b>												
Commercial and Industrial Loans	7.7			6.3			7.2			5.1		
Nonfarm, Nonresidential												
Real Estate Loans	-1.0			5.1			2.0			6.2		
Total Business Loans	4.8			5.7			5.1			5.7		
<b>Percent Changes from 1994 to 1995</b>												
Commercial and Industrial Loans	4.6			9.4			6.1			8.2		
Nonfarm, Nonresidential												
Real Estate Loans	-0.7			10.1			4.4			10.5		
Total Business Loans	2.8			9.8			5.4			9.5		

Note: Loans under \$1 million are assumed to represent small business lending.

Source: Special tabulations of the June 1996 call reports (*Consolidated Reports of Condition and Income for U.S. Banks*) prepared for the U.S. Small Business Administration, Office of Advocacy, by James Kolari, Texas A&M University, College Station, Texas.



the decline in the number of small banks may have contributed to the relatively lower level of small business lending is unknown. Certainly as small banks disappear, lending by this sector to small local businesses will decline.

Mergers and acquisitions (M&As) continued at a relatively rapid pace in 1996. The total number of reporting banks declined to 9,670: all of the decline occurred in the under \$100 million asset size group (Chart 2.3).<sup>9</sup> The number of *de novo* or newly chartered banks also declined: according to one study, *de novo* banks are more active in small business lending than incumbent banks.<sup>10</sup>

Large banks with assets of more than \$1 billion account for 74 percent of total assets and 76 percent of total business loans in the banking industry, but their small business loan portfolios are a smaller share of the total. Some 398 large banks made 50.8 percent of the dollar value of small business bank loans under \$1 million and 42.8 percent of the dollar value of those under \$250,000 in 1996 (Table 2.12).

Nevertheless, small business loans have an important and growing place in the portfolios of many billion-dollar banks.<sup>11</sup> Large banks' share of the amount of loans under \$1 million increased from 48.5 percent in 1995 to 50.8 percent in 1996. The increase came from growth in the number and size of these banks through mergers and acquisitions, as well as from a larger share of their assets being lent to small firms.<sup>12</sup>

Moreover, many large banks are developing a new class of business loans—including small business lines of credit—thereby increasing their lending in the smallest loan category.<sup>13</sup> Their share of the smaller loans under \$100,000 increased significantly in value and especially in the number of loans made (Charts 2.4 and 2.5). Still, small banks with assets under \$500 million remain the major suppliers of loans in the under \$100,000 size category, accounting for 57 percent of the dollar amount.

How the bank merger and acquisition activities of recent years will affect small business lending is a key question for small business researchers and

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<sup>9</sup> Most of the decline in small banks during the recent past has been the result of merger and acquisition activity. Bank failures have been an insignificant factor during the past several years of prosperity in the banking industry.

<sup>10</sup> See Lawrence J. White and Lawrence Goldberg, "De Novo Banks and Lending to Small Businesses" a paper presented at the Conference on the Economics of Small Business Finance, May 22–23, 1997 (New York, N.Y.: New York University, Stern School of Business).

<sup>11</sup> Many billion-dollar banks have more than \$500 million in small business loans on the books and devote 20 to 40 percent of their business lending to small businesses.

<sup>12</sup> The share of total industry assets held by these billion-dollar banks increased from 72.4 percent in June 1995 to 74 percent in June 1996. The ratio of small business loans to total assets increased from 3.5 percent to 3.9 percent in banks with assets of \$1 billion to \$10 billion and from 1.5 percent to 1.9 percent in banks with assets over \$10 billion.

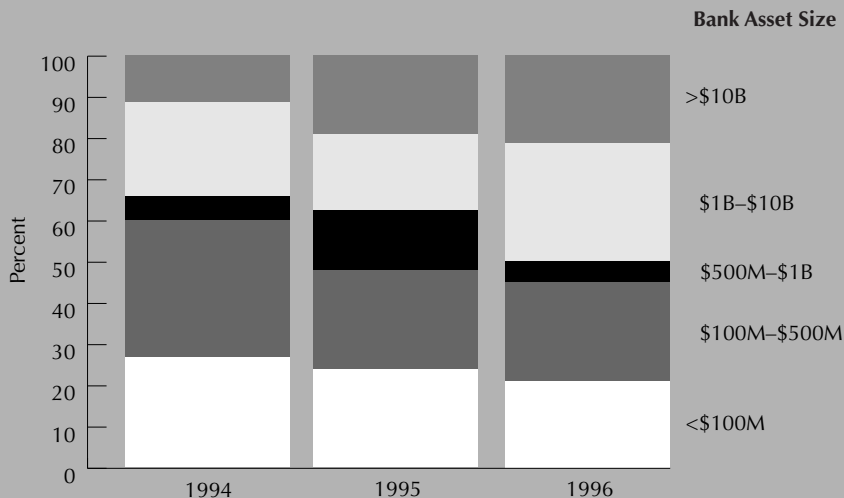
<sup>13</sup> Large banks are utilizing credit scoring tools to extend credit to small business owners. Credit reviews are simplified by focusing on the business owner's credit rather than on the business financials. Between the two survey years of 1987 and 1993, the percent of small firms using lines of credit increased slightly while the percent using all other traditional credit declined. See John Wolken and Rebel Cole, "Bank and Nonbank Competition for Small Business Credit: Evidence from the 1987 and 1993 National Survey of Small Business Finances," *Federal Reserve Bulletin* (November 1996).

**Table 2.12** *Distribution of Loans and Loan Dollars by Loan Type and Size and Asset Size of Bank, June 30, 1996 (Percent)*

Type of Loan/ Bank's Asset Size	Loan Sizes															
	Under \$100,000			\$100,000–\$250,000			Under \$250,000			\$250,000–\$1 Million			Under \$1 Million		Over \$1 Million (Dollar Amount)	Total (Dollar Amount)
	Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount	Number	Dollar Amount				
Commercial and Industrial Loans																
0–\$100 Million	19.3	24.6	10.8	11.5	18.7	20.5	7.1	6.8	18.2	15.0	0.03	5.1				
\$100 Million–\$500 Million	21.9	27.8	25.1	25.8	22.1	27.2	21.1	20.6	22.0	24.5	2.7	9.8				
\$500 Million–\$1 Billion	5.0	6.3	7.1	7.1	5.2	6.5	6.5	6.8	5.2	6.7	1.9	3.5				
\$1 Billion–\$10 Billion	30.4	20.6	28.8	28.0	30.3	22.9	31.6	31.8	30.4	26.4	24.6	25.2				
Over \$10 Billion	23.4	20.7	28.1	27.6	23.7	22.9	33.8	34.0	24.2	27.3	70.4	56.5				
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0			
Real Estate																
0–\$100 Million	32.0	32.0	13.1	13.1	27.0	22.5	10.2	9.2	23.7	14.9	1.0	8.2				
\$100 Million–\$500 Million	34.8	34.8	30.0	30.0	33.5	32.4	27.3	27.5	32.3	29.6	9.9	20.0				
\$500 Million–\$1 Billion	6.0	6.3	8.3	8.3	6.6	7.3	8.1	8.5	6.9	8.0	5.4	6.7				
\$1 Billion–\$10 Billion	16.2	16.2	26.1	26.6	18.8	21.5	28.1	28.2	20.6	25.3	31.7	28.4				
Over \$10 Billion	11.0	10.7	22.4	21.9	14.0	16.4	26.3	26.6	16.5	22.3	52.0	36.7				
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0			
Total Business Loans																
0–\$100 Million	21.1	27.0	11.9	12.3	20.1	21.3	8.6	8.2	19.2	14.9	0.5	6.2				
\$100 Million–\$500 Million	23.6	30.0	27.3	27.9	24.0	29.2	24.1	24.5	24.0	26.9	4.8	13.5				
\$500 Million–\$1 Billion	5.2	6.3	7.6	7.7	5.4	6.8	7.3	7.8	5.6	7.3	2.9	4.6				
\$1 Billion–\$10 Billion	28.5	19.2	27.6	27.3	28.4	22.4	29.9	29.7	28.5	25.9	26.7	26.4				
Over \$10 Billion	21.7	17.6	25.6	24.8	22.1	20.4	30.1	29.9	22.7	24.9	65.1	49.4				
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0			

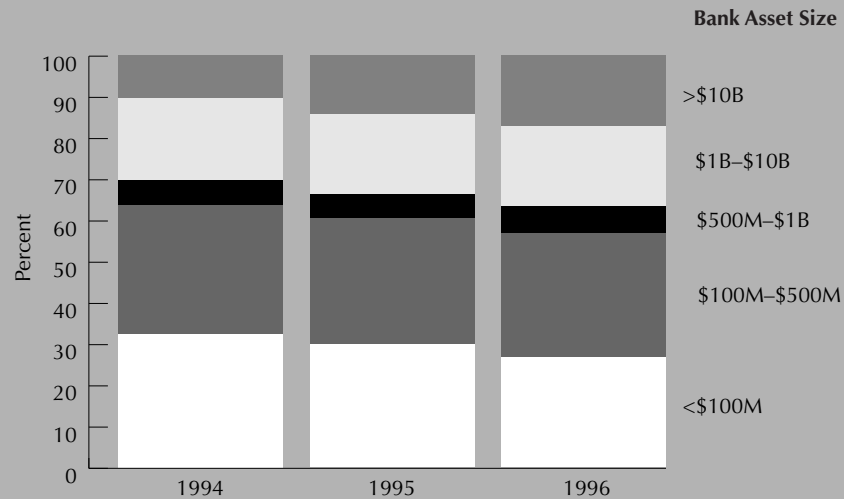
Source: Special tabulations of the June 1996 call reports (*Consolidated Reports of Condition and Income for U.S. Banks*) prepared for the U.S. Small Business Administration, Office of Advocacy, by James Kolari, Texas A&M University, College Station, Texas.

**Chart 2.4** *Changes in the Share of the Number of Small Business Loans Under \$100,000 by Bank Size, 1994–1996.*



Source: Prepared by the U.S. Small Business Administration, Office of Advocacy, from call report data, June 1996.

**Chart 2.5** *Changes in the Share of the Amount of Small Business Loans Under \$100,000 by Bank Size, 1994–1996.*



Source: Prepared by the U.S. Small Business Administration, Office of Advocacy, from call report data, June 1996.

policymakers. Interstate branching activities became legal officially on January 1, 1997. Between 1994 and 1996, the total assets of billion-dollar banks increased by 18 percent from mergers and acquisitions and internal growth. Total small business loans, defined alternatively as loans under \$1 million, under \$250,000, and under \$100,000, increased by 25 percent, 28 percent, and 30 percent, respectively. It appears that, on the whole, the acquiring banks have not acted to reduce the small business lending of acquired banks in post-merger reorganizations. The issue is complicated and the findings of existing literature point to mixed conclusions, as expected.

Concerns are emerging, however, about potential declines in small business lending caused by mergers and acquisitions, as identified in two reports prepared for the U.S. Small Business Administration's Office of Advocacy.<sup>14</sup> A report by Joe Peek concludes that the small business lending behavior of acquiring banks assumes primary importance in assessing the impact of mergers and acquisitions on small business lending. As most acquiring banks will return to their natural practices, the acquisition of active small business lenders by banks inactive in the small business loan market is likely to have serious negative effects on small business lending.

A study by Kolari and Zardkoohi concluded that while banks that were members of a bank holding company (BHC) tended to make more small business loans as a proportion of total assets than independent banks, members of large bank holding companies tended to have lower small business loan ratios than did members of small bank holding companies. Similarly, while branch banks tended to make more small business loans than banks with no branches, large branch bank organizations tended to have lower small business loan ratios than small branch bank organizations. And states allowing statewide branching tended to have lower small business loan ratios than did states with limitations on statewide branching.

According to Kolari and Zardkoohi, these results suggest that the current trend toward large bank holding companies and large branching organizations will have a negative effect on the small business credit supply. In general, the researchers concluded, the weight of the evidence in their study and others is more negative than positive in terms of the potential effects of banking industry consolidation on small business lending.

Small firms across the country can expect some difficulties in obtaining bank credit as the banking industry undergoes a period of structural change. Whether these negative effects are short-term or long-term in nature is not possible to discern from the current data: further research is needed to examine the effects of consolidation on small business credit over time, the researchers said.

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<sup>14</sup> Joe Peek, *The Effects of Interstate Banking on Small Business Lending*, report no. PB97-186068, prepared for the U.S. Small Business Administration, Office of Advocacy (Springfield, Va.: National Technical Information Service, February 1997) and James Kolari and A. Zardkoohi, *The Impact of Structural Change in the Banking Industry on Small Business Lending*, report no. PB98-106693, prepared for the U.S. Small Business Administration, Office of Advocacy (Springfield, Va.: National Technical Information Service, May 1997).

To conclude, the size of the bank or bank holding company and its central location seem to have more impact than banking structure (for example, whether or not the bank is part of a BHC) on how a bank engages in small business lending. The benefits of economies of scale and diversification may promote small business lending by members of large bank holding companies, but factors on the negative side include banks' higher costs for conducting "relationship" banking with small business borrowers (especially for very small loans), the higher threshold for entry into small business lending markets, and the high transition costs for small firms seeking to reestablish lender-borrower relationships disrupted by ownership changes.

Federal financial regulatory agencies need to be sensitive to these problems, especially potential impacts on certain groups of borrowers in small market areas where relationship banking has become prohibitively costly for large acquiring banks.<sup>15</sup>

In sum, banks of all sizes have been active in small business lending and it appears that a number of large banks became more active in 1996. Small banks, however, remained the predominant lenders to very small borrowers.

## Lending Under the SBA's Guarantee Programs

Both the number and dollar amount of loans made under the loan guaranty programs of the U.S. Small Business Administration declined in FY 1996. The number of loans decreased from 55,597 to 45,845; the amount declined from \$8.3 billion to \$7.7 billion. Beginning in FY 1994 and continuing into FY 1995, the agency slowed the promotion of loans under \$100,000. It is also possible that commercial banks have seen more opportunities in the small loan market and have expanded private, non-SBA lending.<sup>16</sup>

## Lending by Finance Companies

Finance companies have continued to penetrate the small business loan markets over the past 20 years. Lending by finance companies continued to increase in 1996, although at a much slower pace than in the previous year (Table 2.13). A preliminary study by Federal Reserve Board economists based on the 1993 National Survey of Small Business Finances concluded that banks lost market share, but only slightly, to nonbank lenders in the market for small business credit between 1987 and 1993.<sup>17</sup> While small business uses of all credit from banks declined during the two survey years, nonbank inroads into the equipment loan, motor vehicle loan and capital lease markets

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<sup>15</sup> For a better understanding of these banks' lending practices, a data base could be developed tracking the small business lending activities of their acquirers over time.

<sup>16</sup> For example, the number of low documentation or "low-doc" loans (generally, loans under \$100,000) increased from 5,862 in FY 1994 to 30,880 in FY 1995.

<sup>17</sup> Based on two surveys on small business finances conducted for the Federal Reserve Board and the U.S. Small Business Administration. See Wolken and Cole, "Bank and Nonbank Competition," Table 9, 992.

**Table 2.13** *Business Loans Outstanding from Finance Companies, December 31, 1980–December 31, 1996*

	Total Receivables Outstanding		Annual Change in Chain-Type <sup>1</sup> Price Index for GDP (Percent)
	Billions of Dollars	Change (Percent)	
December 31, 1996 <sup>2</sup>	309.5	2.6	1.8
December 31, 1995 <sup>2</sup>	301.6	9.7	2.4
December 31, 1994 <sup>2</sup>	274.9	−6.7	2.5
December 31, 1993	294.6	−2.3	2.3
December 31, 1992	301.3	1.9	2.5
December 31, 1991	295.8	0.9	2.6
December 31, 1990	293.6	14.6	3.4
December 31, 1989	256.0	9.1	4.6
December 31, 1988	234.6	13.9	3.9
December 31, 1987	206.0	19.7	4.0
December 31, 1986	172.1	9.3	3.2
December 31, 1985	157.5	14.3	2.5
December 31, 1984	137.8	21.9	3.5
December 31, 1983	113.4	12.9	3.8
December 31, 1982	100.4	0	5.3
December 31, 1981	100.3	11.1	8.5
December 31, 1980	90.3		

<sup>1</sup> Changes from the fourth quarter of the year before.

<sup>2</sup> Major data revision for 1994–1996. See Federal Reserve Board, *Federal Reserve Bulletin*, December 1997, A33.

Source: Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*, Table 1.52, various issues; U.S. Department of Commerce, Bureau of Economic Analysis, *Business Conditions Digest*, various issues; and *idem.*, *Survey of Current Business*, various issues.

increased.<sup>18</sup> Overall, finance companies provided 13 percent of total traditional small firm financing (Chart 2.2). Finance companies were responsible for 21 percent of the total value of small business equipment loans provided by the six major traditional financing sources (Table 2.4). The comparable figure for leasing was 19 percent; for lines of credit, 15 percent.

## Borrowing in the Public Issue Markets

In the context of a continuing stock market boom, the initial public offering market showed significant growth in 1996. The number and volume of common stock IPOs increased 50 percent and 65 percent, respectively, to 870

<sup>18</sup> Wolken and Cole, “Bank and Nonbank Competition,” Table 10, 992.

offerings for almost \$50 billion in 1996, compared with \$30 billion for 581 issues in 1995 (Table 2.14). Offerings by nonfinancial firms having less than \$10 million in total assets before the public issue also increased significantly, from 187 to 291 in the number of issues and \$3.1 billion to \$5.7 billion from 1995 to 1996. The average offering size increased further, from \$16 million in 1994 to \$21 million in 1995 to \$28 million in 1996. IPO offerings by venture-backed companies also increased significantly, to 276 from 183 in 1995 (Chart 2.6).

## Venture Capital Funds

High returns on investment from the initial public offerings of venture-backed companies encouraged increases in fundraising by venture capital funds in 1996. Funds raised by venture capital firms amounted to \$7.5 billion, another historic high (Table 2.15).<sup>19</sup> A new development was an increase in commitments from corporations, which accounted for 18 percent of total contributions in 1996, compared with a mere 2 percent in 1995 (Table 2.16). A booming public offering market continued to contribute to higher rates of return for venture capital investment in 1996.<sup>20</sup>

Disbursements to small businesses by small business investment companies (SBICs) increased significantly—by more than 60 percent—from \$1.18 billion in 1995 to \$1.85 billion in 1996 (Table 2.17). All of the increase came from regular SBICs as a result of the SBA's restructuring the program to promote the formation of larger SBICs. Investment by specialized SBICs (301d companies or SSBICs), most of them very small, declined further in 1996. The volume of disbursements decreased from \$148 million in 1995 to \$117 million in 1996. The future of these SSBICs remains uncertain.

## Conclusion

Given a steady economy with normal demand for seasonal and expansion capital, small businesses found an ample supply of debt capital in 1996. A very healthy banking system provided adequate small business loans, although still at relatively high interest rates.

The availability of equity financing, especially for fast-growing firms, continued to expand in the booming equity market of 1996. Both initial public offerings and private venture capital reached historically high volumes.

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<sup>19</sup> The venture capital market hit bottom when total commitments amounted to \$1.27 billion in 1991.

<sup>20</sup> "Venture Returns Skyrocket to 50.7 Percent," *Venture Capital Journal*, May 1996, 7.

**Table 2.14** *Common Stock Initial Public Offerings by All and Small Issuers, 1988–1996 (Amounts in Millions of Dollars)\**

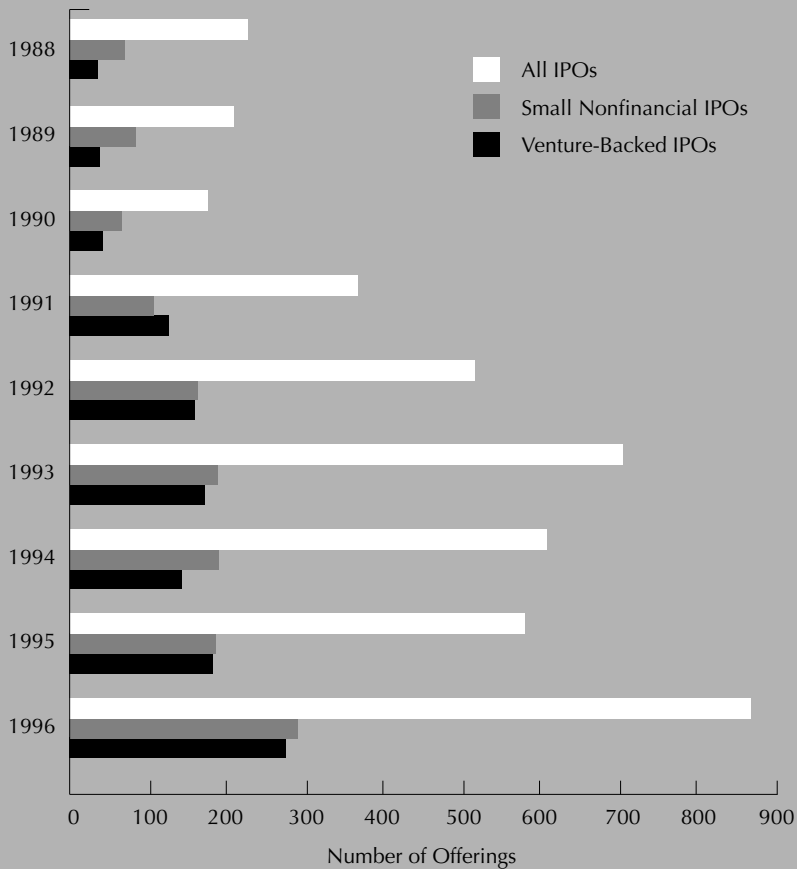
	Common Stock	
	Number	Amount
<b>Offerings by All Issuers</b>		
1996	870	49,848
1995	581	30,047
1994	609	28,447
1993	707	41,283
1992	517	24,139
1991	368	16,846
1990	177	4,822
1989	209	6,082
1988	228	5,940
<b>Offerings by Issuers with Assets of \$10 Million or Less</b>		
1996	304	5,789
1995	193	3,174
1994	202	2,080
1993	203	2,798
1992	171	2,241
1991	116	1,334
1990	86	1,310
1989	89	584
1988	83	656
<b>Offerings by Nonfinancial Issuers with Assets of \$10 Million or Less</b>		
1996	291	5,686
1995	187	3,129
1994	190	1,975
1993	189	2,043
1992	164	1,919
1991	108	879
1990	67	951
1989	84	562
1988	71	366

\*Excludes closed end funds. Registered offerings data from the Securities and Exchange Commission are no longer available. Data provided by Securities Data Company are not as inclusive as those registered with the SEC.

Source: Special tabulations prepared for the U.S. Small Business Administration, Office of Advocacy, by Securities Data Company, Inc., 1998.



**Chart 2.6** *Number of IPO Offerings by All, Small Nonfinancial, and Venture-Backed Firms, 1988–1996*



Source: U.S. Small Business Administration, Office of Advocacy, from data provided by Securities Data Incorporated.

**Table 2.15** *New Commitments, Disbursements, and Total Capital Pool of the Venture Capital Industry, 1982–1996*

Year	New Commitments to Venture Capital Firms <sup>1</sup> (Billions of Dollars)	Disbursements to Funded Companies (Billions of Dollars)	Number of Funded Companies	Total Investment Capital Pool At End of Year <sup>2</sup> (Billions of Dollars)
1996	7.5	9.6	NA	NA
1995	4.4	7.2	NA	NA
1994	3.8	5.3	1,011	34.1
1993	2.5	5.3	969	34.8
1992	2.5	4.9	1,207	31.1
1991	1.3	2.6	792	32.9
1990	1.8	3.8	1,176	36.0
1989	2.4	3.4	1,465	34.4
1988	2.9	3.8	1,530	31.1
1987	4.1	4.0	1,740	29.0
1986	3.3	3.2	1,512	24.1
1985	3.3	2.7	1,388	19.6
1984	4.2	2.7	1,410	16.3
1983	4.5	2.5	1,236	12.1
1982	1.7	1.4	828	6.7

NA = Not available

<sup>1</sup> Major data revision for disbursement figures. See *Venture Capital Journal*, January, 1998.

<sup>2</sup> The capital pool at year end should equal the total pool at the end of the previous year plus new commitments, minus the amount of net withdrawal (or liquidation) from the funds. For 1983, an additional \$600 million was identified which had not been included in the prior estimate.

Source: Capital Publishing Corporation, *Venture Capital Journal* (various issues).

**Table 2.16** *Sources of Capital Committed to Independent Venture Funds, 1983–1996 (Percent)*

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
<b>Total (Billions of Dollars)</b>	<b>3.4</b>	<b>3.2</b>	<b>2.3</b>	<b>3.3</b>	<b>4.2</b>	<b>2.8</b>	<b>2.4</b>	<b>1.8</b>	<b>1.3</b>	<b>2.5</b>	<b>2.5</b>	<b>3.8</b>	<b>4.4</b>	<b>7.5</b>
Share Contributed by:														
Pension Funds	31	34	33	50	39	46	36	53	42	42	59	46	38	40
Foreign Sources/ Others*	16	18	23	11	13	14	13	7	12	11	4	2	3	6
Corporations	12	14	12	11	11	11	20	7	4	3	8	9	2	18
Endowments	8	6	8	6	10	12	12	13	24	19	11	21	22	20
Individuals	21	15	13	12	12	8	6	11	12	11	7	12	17	8
Banks/Insurance Companies	12	13	11	10	15	9	13	9	6	15	11	9	18	5
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Note: Data may not add to 100 percent because of rounding.

\*Others include funds-of-funds.

Source: Capital Publishing Corporation, *Venture Capital Journal* (various issues).

**Table 2.17** *Disbursements to Small Businesses by Small Business Investment Companies (SBICs) and 301(d) SBICs, 1980–1996 (Amounts in Millions of Dollars)*

Year	Total		SBICs		301(d) *	
	Number	Amount	Number	Amount	Number	Amount
1996	2,302	1,848.5	1,343	1,731.7	959	116.8
1995	2,173	1,184.4	1,045	1,036.7	1,128	148.3
1994	2,375	1,120.6	1,070	965.2	1,305	155.4
1993	2,302	923.6	986	784.9	1,316	138.7
1992	1,633	484.2	767	395.7	866	88.5
1991	2,044	460.1	1,036	364.2	1,008	95.9
1990	2,367	645.2	1,334	545.9	1,033	99.3
1989	3,322	690.0	1,876	542.4	1,446	147.6
1988	3,724	750.9	2,227	614.4	1,497	136.5
1987	4,128	680.5	2,522	537.9	1,606	142.6
1986	4,333	620.8	2,675	75.9	1,658	144.9
1985	4,205	542.3	2,756	434.6	1,449	107.7
1984	3,990	513.9	2,755	425.5	1,235	88.0
1983	3,247	468.8	2,464	412.9	783	55.9
1982	2,941	369.9	2,177	322.9	764	47.0
1981	3,176	387.1	2,434	332.7	742	54.4
1980	2,637	337.4	2,090	295.2	547	42.2

\* 301(d) companies are minority or economically disadvantaged small business investment companies.

Source: U.S. Small Business Administration, Investment Division.